Efficacy of GST Composition Scheme – An Analytical Study of FMCG Sector in National Capital Region (NCR)

SHORT SYNOPSIS

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Certificate

I hereby declare that the short synopsis "Efficacy of GST Composition Scheme-An Analytical Study of FMCG sector in National Capital Region(NCR)" being submitted in partial fulfillment of the requirement for the degree of Doctor of Philosophy in commerce under School of Commerce of Manav Rachna International Institute of Research & Studies, Faridabad during the academic year 2023-24.

It is a bona fide record of original work carried out under the supervision of Dr. (CS) Vinit Sikka and has not been submitted in full or part to any other university or institute for degree or diploma. Further, it is certified that short synopsis is plagiarism free and proof has been submitted.

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ABSTRACT

The research focuses on, “Efficacy of GST Composition Scheme - An Analytical Study of FMCG Sector in National Capital Region (NCR)”. The composition scheme streamlines the tax compliance procedure for qualifying enterprises in an effort to lessen regulatory constraints and make it easier for firms to operate. The purpose of this study is to investigate how the GST Composition Scheme affected the specific group of taxpayers studied, specifically how it affected company expansion, tax compliance, and economic growth.

This research will examine the fundamental aspects and provisions of the GST Composition Scheme by an in-depth examination of relevant literature, official publications, and empirical data. It looks at things like who may participate, how much it costs, and what rewards are offered to companies who opt for this scheme. To further illuminate any possible difficulties experienced by taxpayers, the study also dives into the procedural characteristics and constraints of the composition system.

The research strategy integrates quantitative and qualitative methods. The experiences and perspectives of small taxpayers of FMCG Sector who have chosen the GST Composition Scheme will be gathered through surveys, interviews, and case studies. To learn more about how the programme will affect tax collections, compliance rates, and sector-specific effects, we will look to secondary data sources including government publications and statistics reports.

The fast-moving consumer goods (FMCG) business is the fourth-largest sector of the Indian economy. The GST, which has an impact on practically every sector of the Indian economy, has taken the place of a variety of indirect taxes that the federal and state governments formerly levied. FMCG is one such sector that directly impacts the common populace. It is critical to do study on the GST's possible advantages and disadvantages for the FMCG sector. Thus, the analysis takes into account the FMCG industry's potential exposure to the consequences of the GST composition scheme. It also emphasises the benefits and drawbacks of GST adoption for the FMCG sector.

The results of this research add to our knowledge of how helpful the GST Composition Scheme has been for small dealers of FMCG’s. The scheme's effect on tax compliance behavior, financial stability, and expansion potential for qualified taxpayers is the primary emphasis of this research. The research also looks into the possibility of any unforeseen outcomes and any ways in which the method may be improved.

Policymakers, tax authorities, and owners of small and medium businesses who want to know more about the pros and cons of the GST Composition Scheme will find this study's findings useful. Ultimately, the research hopes to help small and medium-sized taxpayers flourish under the GST regime by making evidence-based recommendations to further simplify and optimize the scheme's provisions.

Keywords: Goods and Services Tax (GST), Composition Scheme, Small taxpayers, Tax compliance, FMCG(Fast moving consumer goods), Business growth, Economic development.

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INTRODUCTION

1.1 History of taxes in world and then in India

Taxes are fees that governments impose on citizens in order to raise money for general public expenditures. In the context of taxes, "tax compliance" refers to the observance of laws and regulations by taxpayers to guarantee that they pay the appropriate amount of tax at the appropriate time and benefit from all available tax deductions and credits. The statute provides for punishment for any taxpayer who is found guilty of either tax evasion or resistance.

The fiscal health of a country is directly related to the efficiency of its tax system. A prosperous economy and populace may be the result of a well-established tax system. Citizens are happier and more productive as a consequence. Assisting in economic allocation, distribution, and stabilization are all hallmarks of good tax policy. Strong taxation boosts GDP.

When one party provides goods or services in return for another party parting with cash, both parties benefit monetarily. India's earliest known official tax system dates back to the Maurya era. One sixth of the higher income bracket's money went to the government. Manu Smruti, one of India's earliest scriptures, is claimed to have mentioned taxation long before the reign of the Mauryas.

In 1860, the British introduced the forerunner of the modern income tax in India. The government instituted this policy after suffering casualties during the 1857 uprising. Each year, taxpayers must pay income tax on both their earned (from jobs) and unearned (from dividends, interest, or rent) income. The revenue collected by progressive income taxes is used to support government programs, redistribute wealth more fairly, and cushion the effects of economic downturns. There are two primary types of income taxes: those charged on individuals and those levied on businesses.

The Income Tax Act of India was first enacted in 1886 and has been updated and revised multiple times since then to reflect changing times and circumstances. By establishing the Income Tax Act in 1918, legislators hoped to cushion the economy from the effects of World War I. It wasn't until 1922 that this income tax law was officially repealed. Forty-fifteen years after India won its independence from Britain, lawmakers once again overhauled the country's tax code by amending the Income Tax Act. In 1961, lawmakers passed the Income Tax Act that would become law the next year on April 1. Sikkim, Jammu & Kashmir, and the rest of India are all covered. The Central Board of Revenue was formally divided in two in 1963, with one half becoming the Central Board of Direct Taxes and the other continuing to operate under its previous name.

(https://www.levare.co.in/articles/history-taxation-india#:~:text=The%20income%20tax%20as%20we,to%20the%20rebellion%20of%201857)

1.2 Introduction of Indirect taxes in world and then in India

Many national governments have significant funding needs in the wake of the global financial crisis. Indirect taxes have historically shown to be the most stable source of income, whether for funding the economic stimulus package or gradually filling the financial gap produced by the economic shock. Many groups, including the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD), and the European Commission, advocate for a transition away from direct to indirect taxation. Several international studies have found that taxing corporate profits has a negative impact on economic growth, whereas value-added taxes (VATs) have the smallest.

However, the majority of nations lack a comprehensive and consistent strategy for collecting e-commerce taxes. Governments all over the world have started to actively develop new regulations as a result of the realization that insufficient law has resulted in a significant loss of tax income in recent years.

Since ancient times, taxes have been a prevalent idea. In the past, the top of the sociopolitical structure would demand a percentage of the citizens' income from the sale of their crops. Governments continue to impose taxes today to raise money for the budget.

Indirect taxes work in the opposite direction of direct taxes. Unlike direct tax, indirect tax does not directly reduce a person's or a business's earnings. It's the cost consumers incur when dealing with intermediaries. Transmission occurs between individuals.

It's an extra cost that is tacked onto the final bill in India. This tax is already included into the selling price of the product or service. There is no statutory definition of indirect taxes in India. In order to levy indirect taxes on tangible and intangible goods, our government issues notices and circulars. (https://incometaxindia.gov.in/pages/about-us/history-of-direct-taxation.aspx)

Types of Indirect Taxes

In India, there are various different kinds of indirect taxes. Although all of these taxes were combined into one group once the GST was implemented, there were formerly the following types of taxes:

a. Service Tax

A fee that must be paid in order to make use of a company's services. The government of India collects a levy known as "service tax" from service providers on certain service sales.

b. Value Added Tax

It's a tax levied at any time value is transferred between buyer and seller. The tax is collected from the moment a raw material is acquired until the time a final product is sold.

c. Custom Duty

Tax is collected in the form of duty by the Central Board of Excise and customs upon importation of a goods into India. It is a reasonable tax on Indian exports.

d. Excise Duty

A levy charged by the Indian government on enterprises producing goods in India. Manufacturers pass the cost of production on to consumers in the form of retail prices.

e. Sales Tax

The state government collects this tax on interstate sales while the state governments collect it on intrastate sales.

f. Entertainment Tax

State residents must pay this fee if they partake in any form of entertainment within the state. Entertainment goods and services cover video games, theatres, sports, and amusement parks.

Features of Indirect Taxes

a. Indirect taxes have historically been regressive since they fall more heavily on high-income taxpayers, but the introduction of the Goods and Services Tax has turned this dynamic, making indirect taxes progressive.

b. Due to its inclusion in retail pricing, avoiding this cost may be difficult; nevertheless, the tax burden might be passed on to the ultimate customers from the original service providers or manufacturers.
c. It is always the taxpayer who buys the final commodity or service that is subject to tax.
d. Indirect taxes help companies grow because they encourage individuals to save and invest.

Advantages of Indirect Taxes

a. Simple to Understand

it's easier to impose than a flat tax and requires less explanation. Merchants and service providers incorporate this charge into the final amount you pay for their goods or services. The first taxpayer (the store or service provider) is spared the worry of collecting from the first tax payers.

b. Easy to use and saves time

Indirect tax has the benefit of being transferable from one person to another, making it both convenient and efficient to employ. Since the taxpayer is the buyer or recipient of the service, the business to whom the tax is owed may collect it directly from the customer. As a result, collecting this type of tax is simple and effective.

c. Equivalent collection from everyone

There is no income tax bracket for an assessee whose yearly income is less than Rs. 2,500,000. This income bracket is exempt from direct taxation. However, they must pay indirect taxes to the government and help advance our nation.

d. Mitigation of Liability for tax payment

Indirect taxes are already included into the price of a product or service and are consequently collected by the government at the time of purchase, rather than being deducted from an individual's income or wage. As a result, it doesn't seem like a burden on the government's coffers.

e. Rational Distribution of Tax

Indirect taxes have a negative correlation to the demand for any given good. As a result, the tax is lower on things that satisfy our essential and basic requirements. On the flip side, taxes on high-end and pricey goods will be increased.

f. Unavoidable

Due to the fact that indirect taxes are typically built into the retail price of a product or service, they are difficult to avoid.

Disadvantages of Indirect Taxes

Apart from advantages, indirect taxes come with some of the drawbacks as well, some of these are below:-

a. Regressive Framework

Despite the GST's progressive character, indirect taxes continue to be labelled as regressive. They have a greater impact on the poor as a share of income than on the wealthy. As a result, their bottom line will take a hit.

b. Lack of Civic Consciousness:

Indirect taxes are unable to develop civic consciousness. Many people do not know that they pay indirect tax along with the prices. People do not feel the pinch of tax payment. As the tax payment is not apparently felt, the tax payers do not take interest in 'how they are spent'. So, indirect taxes are unable to create consciousness among the tax payers.

c. Fall in Consumption:

Indirect taxes are included in prices. Commodity prices increase as a result of indirect taxation. Because of the increase in commodity costs, lower income groups' consumption is inevitably going to decrease. The decline in consumption of necessities impairs the general public's health and productivity.

d. Cumulative Nature

This tax may occasionally be levied cumulatively. From the raw materials to the finished product, intermediaries frequently impose exorbitant taxes at every stage of the transaction. A commodity's price rises as a result of this.

e. Unfavorable for Industries

One drawback of indirect tax is that it is unfavorable to emerging industries. Intermediaries charge exorbitant prices for raw materials, as was mentioned in the preceding pointer. Due to the increased cost of production, industries are deterred from growing.

1.3 Evolution of GST in India

The former prime minister of India, Shri Atal Bihari Vajpayee, proposed the introduction of a GST. from February 28, 2006, the Union Finance Minister proposed implementing the Goods and Services Tax (GST) from April 1, 2010. The Empowered Committee of State Finance Ministers (EC) was tasked with developing the strategy and framework for the GST as well as establishing the State VAT. Exemptions and thresholds, service taxes, and interstate supply taxation are only some of the topics being discussed by working groups comprised of state and federal officials.

In November 2009, after much debate both inside and outside the EC, the First Discussion Paper (FDP) on GST was released. The current GST law may be traced back to the FDP, which served as a template outlining its prerequisites.

In March of 2011, the Lok Sabha proposed the Goods and Services Tax (GST) as the Constitution (115th Amendment) Bill. Before the 15th Lok Parliament was dissolved in August 2013, the Bill failed to make it out of committee due to a lack of political support.

On December19, 2014, the Lok Sabha was presented with the Constitution (122nd Amendment) Bill 2014. In May of 2015, the bill was approved by the Lok Sabha. The Rajya Sabha discussed and referred the bill to the Joint Committee of the Lok Sabha and the Rajya Sabha on May 14, 2015. A public presentation of the Select Committee's findings was made on July 22, 2015. The Constitutional Amendment Bill was formally introduced on August 1, 2016, after reaching political consensus.

On August 3rd, the Rajya Sabha passed the law, and on August 8th, the Lokya Sabha did as well. On September 8, 2016, the President and the legislatures of the necessary number of states ratified the Constitutional Amendment (101st Amendment) Act of 2016. An modification to India's constitution created a national sales tax on goods and services.

As of March 29, 2017, the Goods and Services Tax (GST) law had been passed by the Lok Sabha. “This law encompasses the Central Goods and Services Tax Bill 2017, the Integrated Goods and Services Tax Bill 2017, the Union Territory Goods and Services Tax Bill 2017, and the Goods and Services Tax (Compensation to the States) Bill 2017. The Rajya Sabha passed these Measures on April 6, 2017, and the President signed them into law on April 12, 2017.”

Some state legislatures responded by enacting goods and services tax laws. Former President Pranab Mukherjee and current Hon'ble Prime Minister Shri Narendra Modi made the official announcement that GST will begin on July 1 during a late-night meeting in the Central Hall of the Indian Parliament on June 30. The three lists of the Seventh Schedule to the Indian Constitution, which came into effect on 26.01.1950 and governed India's indirect tax system until June 30, 2017. The Government of India Act of 1935 provides most of the information here.

The original 1935 foundation for these rules is obsolete due to advances in technology and other factors.

As of late, countries all over the globe have been adopting the Goods and Services Tax (GST). India, on the other hand, needs GST since it is a tax fit for the twenty-first century. Periods in India are like those of elephants; they are sluggish to start but tough to stop.

India's GST implementation date was July 1, 2017.

(https://cleartax.in/s/history-of-gst)

At this time, avoiding the difficulties imposed by the GST is impossible.

1.4 GST - An Overview

In India, most indirect taxes have been replaced by the Goods and Services Tax (GST), which is also an indirect tax. According to Article 366(12-A) of the Indian Constitution, this is what is meant. All taxes on the movement of products and services fall under this umbrella, with the exception of those placed on the movement of alcoholic beverages intended for human use. The following are some of GST's most prominent features:

It takes legislation (Article 265) to establish taxes like GST.

"Supply" is the taxable transaction that triggers GST.

The Goods and Services Tax (GST) is an indirect tax applied on consumer spending.

The provider must pay GST since it is required by law, and the supplier has the legal authority to do so. If an individual/company sells products or services and is obliged to submit GST payments to the government, they must register and provide tax invoices to their customers.

Customers, rather than producers, merchants, or service providers, pay consumption taxes such as GST.

The GST is a sales tax paid by consumers after a purchase has been made. The "value added" part of the term comes from the fact that a vendor may recover the GST they paid on purchases by paying back the GST they collected from customers. This levy is levied on everyone from manufacturers to end users. As a result, businesses will only be taxed on their contributions and the final consumer would foot the bill.

More than 160 countries have embraced the Goods and Services Tax (GST) because it is the most transparent and fair tax collecting system. The Central Goods and Services Tax (CGST) is levied and collected by the central government of India, while the Goods and Services Taxes (SGST) are imposed and collected by the individual states of India.

(https://gstcouncil.gov.in/brief-history-gst#:~:text=One%20Nation%2C%20One%20Tax%3A%20GST,the%20cascading%20effect%20of%20taxes.)

1.5 About the Composition Scheme of GST

It is common practice to set a threshold below which no tax can be imposed, leaving very small taxpayers outside the tax net. This is also more convenient administratively because it is impossible to supervise a large number of tiny taxpayers, whose revenues are insignificant relative to the costs required.

Small and medium taxable persons whose aggregate turnover is less than Rs. 20 lakhs are not required to register under GST.

The Scheme of Composition is announced by the government under GST is for benefit and in favor of the small traders, manufacturers and restaurants etc.

For small taxpayers, the composition levy plan is a relatively straightforward, hassle-free compliance method.

It is a voluntarily chosen alternative. The CGST Act of 2017 and the CGST Regulations of 2017 both contain provisions relating to the composition levy under section 10.

1.6 Impact of composition scheme on FMCG Industry

The dealers of FMCG's opting for composition scheme will have below mentioned impact.

a. ITC is not admissible to suppliers
b. Suppliers are required to issue bill of supply (without charging GST therein) and thus, recipient also not entitled to ITC on supplies received from composition supplier.
c. Reduced documentation as compare to assesse registered under normal scheme of GST.
d. High Liquidity of funds as taxes is low.
e. Limited tax liability.
f. Business transparency has increased.

1.7 Rationale of Study

Even though taxes are lower and there is less compliance as compare to regular scheme, a composition scheme taxpayer is restricted to limited business territory, it is available for the dealers doing only intra state supplies. If a dealer supplies does an interstate supply, he has to opt out of the scheme.

A deeper understanding of the scheme will be helpful for policymakers, tax authorities and small tax payers of FMCG sectors seeking insights into GST composition scheme and challenges.

2. Literature Review

The purpose of this research is to evaluate the word "GST" in the context of literature and its influence on society, with a particular focus on the GST composition system and its applicability on FMCG industries..

Through literature, we may quickly and effectively get insight into other people and their ways of life, habits, beliefs, and more. The literature delves into the meaning and glory of living. When one is adrift in life, literature may serve as a beacon to help them find their way by sharing the stories of those who have faced and overcome similar obstacles.

2.1 Relevant studies from Indian/National Research papers

The literature review and information were segregated into various sub research papers for better reading experience.

(Awasthi et al., 2023) in "The Impact of Goods and Services Tax on Sustainability in the Indian Handicraft Sector" concluded how the implementation of the Goods and Services Tax (GST) in India has a substantial impact on the Indian handicraft sector, which is vital to the country's cultural heritage and economics. The authors signify the various government policies and initiatives in preserving the sustainable development in relation to GST Act with in terms provide a conducive environment towards providing the opportunities for the growth and promotion of handicraft sector. They also highlighted the recent developments that took place like reduction in tax reate from 18% to 12% in handicraft sector, refinement of compliance procedures with the aim of streamline of business process and reduced complexity which in terms leads to growth and overall sustainability of handcraft sector.

(Barot,2017) in "Effect of Intra State and Inter State of GST" introduced the first indirect tax system in 1986 with the Modified Value Added Tax, and the GST was established based on recommendations by the Kelkar Task Force. What makes this document unique are the accounting entries made by the author in accordance with GST. Based on his research, the author of "International Journal of Exclusive Global Research - Vol 3 Issue 2 February" Page 3 of 8 concludes that India has 17 Indirect Taxes and 23 Different Types of Cesses. Only 19% of goods and services are subject to the GST's highest tax rate of 28%; the other 81% are taxed at the lower rate of 18%.

(Dhiman & Jain, 2018), The authors of "Goods and Services Tax - Issues and Challenges; An analysis of Punjab, India" explain that taxes are the government's main source of revenue, and that without them, the government would have to shut down. It provides a boost to the country's economy, helping it expand and prosper. Growth accelerators and an action plan from politicians might be useful in a variety of public and commercial sectors, including healthcare, education, transportation, and public welfare. Both the federal government and various states in India today levy a plethora of taxes. The Goods and Services Tax (GST) is the current national tax system, created by the federal government to consolidate various state and local taxes. When weighing the benefits and drawbacks of the current tax system, this report found that many companies are unhappy.

Significant changes were made to India's tax system on July 1, 2017, as detailed in "A Study of Transformation in Indian Indirect Tax System" (**Gupta & Roy, 2022).** Indirect taxes on the economy will be phased out in favour of the GST once it is completely established. Businesses will find it easier to acquire, sell, and make items thanks to the goods and services tax, which will also stimulate the economy and streamline the indirect tax system. Businesses and industries would be relieved to have just "one" indirect tax to worry about if the GST is implemented. Therefore, we observed that there was a consistent effort throughout the studies to define the system, describe how it would operate, and list potential advantages.

(Kaduniya,2015) explaines in his study" Goods & Service tax(GST)- A welcome step to tax reform that Since independence, India has not witnessed a major tax overhaul.A major tax reform is desperately needed. The Goods and Services Tax, also known as GST, is a global indirect tax system. He majorly defines the composition scheme, returns under GST and its effect on import and export. He however highlighted some of the disappointing issues like rates of GST, uniformity across India, transitional provisions in relation to VAT/CENVAT credit, effects on key business sectors like, health, insurance, real estate, power etc.

(Lipson, 2020) explains how the Goods and Services Tax has affected every part of India's indirect taxation system in "A Study on Small and Medium Traders' perception towards GST with special reference to Edathua." The full potential of current IT is used to increase productivity and transparency. This will lead to streamlined processes, fewer bureaucratic red tape, and quicker tax refunds by reducing the room for error. Despite the advantages and ease of the new tax system, many small and medium-sized businesses are opposed to it. Most people's objections to the current structure of indirect taxes originate from ignorance of its inner workings.

(Lourdunathan et al., 2017) In "Findings from "A study on the implementation of goods and services tax (GST) in India: Prospectus and Challenges" show that producers,

retailers, and customers have varying reactions to and perspectives on GST. One Tax Market to One Nation is facilitated by this to some extent. The authors argue that the GST will increase revenue collection for both the federal and state governments due to the set-off of ITC and the merging of numerous indirect taxes. The writers have emphasised several features and advantages, such as the ability to submit tax returns, get refunds, and pay bills using the GSTNET website. All parties involved should be educated through frequent seminars and workshops, covering benefits including built-in trade transaction verification and simple credit and refund processing.

(Malhotra & Kumar, 2019) In "Composition scheme under GST facilitate for small scale business and consumers" have elaborated on how the Goods and Services Tax's Composition Scheme made compliance easier for low-income taxpayers, particularly sole proprietors. The maximum annual income that qualifies for the plan is Rs. 1.5 Crore ($75,000 for special Status states). Some advantages, such as input tax credits, are unavailable when using the composition approach. The reverse charge system requires tax payment from any individual participating in a composition scheme. Composers also aren't allowed to pass their tax obligations on to their clients. On the other side, reduced GST rates on purchases help consumers as well. As a result, the Composition Scheme is advantageous for both the buyer and the seller. However, the programme is limited to transactions inside the same state. In addition, the plan does not apply to firms who deal in ice cream, pan masala tabasco, casual taxpayer e-commerce, or to non-resident persons.

(NM & Bai, 2018) Researchers in a research titled "Impact on Small Traders through Composition Scheme- A study" underlined the scheme's significance for independent business owners. As such, they have selected 100 Assessees in the Shivamogga area who are paying GST via the Composition Scheme in order to collect this data and use it as a springboard for studying the function and performance of the Composition Scheme and its operating method towards Assesses. The article highlights the positive aspects of composition assessments, such as the elimination of double taxation loopholes and the lessening of the cascade impact. It also serves as a base for the Direct Tax system and gathers data on how this composition scheme aids in the expansion and improvement of the assessee's business through the regular GST. At long last, the government's composition plan and rates for assessments have been laid out in detail. Thus, a rudimentary effort has been made to appreciate the advantages of the composition scheme for assessees and the critical role it plays in modern economic growth via revenue production. In order to properly manage the data acquired from the interviews with Assessees in Shivamogga who pay GST under the Composition Scheme, we employed a structured questionnaire. The most recent prospects, problems, and issues in taxes are highlighted. In the end, it makes some attempts to offer solutions to enhance the Composition Scheme.

(Naik & Sudina , 2017) The implications of GST and its potential future effects on the fast-moving consumer goods (FMCG) industry in India are explored in A Study on the Perspective Impact of GST on FMCG Sector in India. A "whole of business" approach is required to guarantee a smooth GST transition because the tax has such far-reaching effects on all facets of business. Therefore, it is undeniable from a cascade efficiency standpoint. Some input-side efficiencies, from the point of view of eliminating cascading, will occur if the legislation pans out as anticipated and as it is currently designed to. On the input side for a processed product, there may also be exempt non-processed, agriculturally generated raw components. Tomorrow, what will happen to them? Is there a chance they won't enjoy the exemption in the near future. To get a whole picture of what happens to a product when its price drops, remains the same, or rises marginally, it's important to consider all of these factors.

(Sehrawat & Dhanda, 2015) studied and concluded in "GST in India; A key tax reform" about the features, implementation, imposition and timeline of GST in India. They emphasized that consumption and production of goods and services are surely expanding, and because of the complexity of taxes in the current tax framework, administration complexities and compliance costs are also increasing. Its implementation will result in decreased company costs, making domestic products more competitive in both the home and foreign markets. There is no doubt that GST will provide India with a world-class tax structure by giving different treatment to the manufacturing and service sectors. All of this, however, is contingent on its reasonable design and timely implementation. As highlighted in the study, there are several barriers to GST adoption. More analytical research is required to address the competing interests of numerous stakeholders and achieve the commitment for a major change of India's tax structure.

(Vitala et al., 2021) found that in their study "ITC Vs Composition scheme; in order to resolve the issues and overcome the barriers associated with the Input Tax Credit," policymakers considered "an empirical evidence of issue and challenges for utilization of Input tax credit in GST among the houses of North-Bangalore." Their findings suggest that the ITC would benefit from streamlining its operations. No major changes may be made until the GST ITC Mechanism is in place. There are several flaws in the current crop of ITC models for international trade. In addition, they often conclude that the difficulty lies in the fact that the GST ITC Mechanism cannot be implemented without undergoing a number of fundamental adjustments.

2.2 Problem Statement

Although the composition scheme offers several benefits, including less administrative records, restricted returns and statements, limited compliance, and lower tax rates, it has

been observed that taxpayers with turnover within the prescribed limit are unwilling to adopt the scheme. The essential idea of restricted compliance and the less rate of taxes on small taxpayers is thus defeated here since, as we all know, there is no input tax credit and thus, the burden of such tax is kept on the taxpayer himself, who has to pay it out of his own pocket.

The quantitative and qualitative approach through surveys, interviews, case studies, government circulars, notifications, statistical reports will be helpful in laying the groundwork for understanding the scheme's impact on the government as well as on individual taxpayers.

2.3 Research Gaps

After review of literature, it has been observed that there are some of the gaps which lead to non-adoption of scheme by the regular FMCG taxpayers even though falling within prescribed limit. It is important to clarify the same with further research. May be the scheme is poorly understood or the users are not even aware about such scheme of GST.

3. Description of Broad Area

Due to the extensive paperwork and meticulous accounting required under GST, there are high compliance costs. Small taxpayers lack the knowledge and experience necessary to meet the standards for records and accounting. Thus, section 10 of the CGST Act has a simpler composition scheme available for them.

3.1 Eligibility to register under Composition Scheme of GST

A person who is required to file taxes and is not a Subject to the satisfaction of certain criteria, any taxable person or non-resident taxable person whose total revenue in the prior financial year fell within certain defined limitations may elect to participate in such a scheme.

Composition Scheme as specified in Sec 10(1) read with Sec 10(2)

Registered person shall either a supplier of goods or supplier of restaurant/catering services and having his aggregate turnover in the preceding financial year is upto Rs. 150 lakh is eligible to opt for composition scheme, the limit of applicability is Rs. 75 lakh if supplier is registered in Sikkim, Uttrakhand, Meghalaya, Arunachal Pradesh, Nagaland, Manipur, Tripura, Mizoram.

Such person can marginally provide the services other than restaurant services, upto the limit of highest of following two:

(a). 10% of a state's or union territory's total revenue in the previous financial year;

(b). Rs. 500000/-

Composition Scheme as specified in Sec 10(2A)

Composition option granted under newly introduced section 10(2A) is available to Registered Persons who are not entitled to choose for tax payment as per sec 10(1) read with Sec 10(2) only if their total turnover in the previous financial year was up to Rs. 50 lakhs.

Any taxpayer who chooses composition must prominently display the phrase "composition taxable person" in his or her place of business.

(https://taxinformation.cbic.gov.in/)

3.2 Benefits of GST Composition Scheme

a. The requirements for keeping records, books of accounts, and tax returns are simpler and less time-consuming under the GST scheme.

b. Quarterly tax filing and payment made easier.
c. A lot of cash on hand because of the reduced tax burden.
d. Minimal tax consequences.
e. Annually filling of return u/s 39(GSTR-4 by 30th April after the end of Fiscal Year)
f. Return form has been streamlined to require less information.

3.3 Limitations of GST Composition Scheme

a. Limited business territory
b. No Input Tax Credit is given to composition dealers
c. No collection of Output Tax
d. Penal provisions, higher penalty
e. Online electronic commerce is out of scope.
f. Taxpayer will not be eligible to offer non-taxable products under GST such as alcohol and commodities through e commerce site.

3.4 Prohibited Supplies under the scheme

a. Non Taxable supplies
b. Interstate supplies
c. Supply through E Commerce Operator
d. Manufacturer of Tobacco and manufactured tobacco substitutes ice cream, edible ice, pan masala and aerated water shall not be eligible to avail the composition scheme.

However the trader of above these mentioned products shall be eligible to avail the benefit of the scheme.

3.5 Tax Liability under the scheme

The tax rate as defined under the scheme is 1% of turnover for manufacturers and 5% for restaurant /catering service providers, and as per amendment w.e.f 01.04.2020, 6% for the assesse who have opted for composition scheme as specified in sec 10(2A)

Table:1

Rates of Composition Scheme under GST

Type of Business	**CGST**	**SGST**	**Total**
Manufacturers and Traders(Goods)	0.50%	0.50%	1.00%
Restaurants and catering services, not serving Alcohols	2.50%	2.50%	5.00%
Others Suppliers/traders(Goods& Service)	0.50%	0.50%	1.00%
Others Service Providers covered us/s10(2A)	3.00%	3.00%	6.00%

(source:https://taxinformation.cbic.gov.in/)

4. Objectives of the Research

Objectives of the study are as follows-

1. To examine the applicability of GST Composition Scheme for small taxpayers of FMCG sector.
2. To examine whether the scheme is really helpful in reducing the administrative costs in comparison to loss of Input tax credit
3. To find out the financial impact of choosing the composition scheme over a regular scheme for the small tax payers of FMCG sector.
4. To provide evidence based recommendations to further streamline and optimize the scheme's, provisions, to facilitate a conducive environment in the GST regime.

5. Research Methodology

5.1 Design of the Study - Data collection, analysis, and interpretation are all guided by the research design. The Overarching Research Plan for Using Multiple Data Sources and Methods. This study will employ a descriptive research strategy and a carefully constructed questionnaire.

5.2 Sample Size - Sample size of total population will be around 450, National Capital Region (NCR).

Based on Cochran's Formula-Suitable for large populations. It provides a sample size that represents the population with a specified level of confidence. n0=Z 2*p*(1−p)/e2 If you're using the standard formula for a proportion Z 2×p×(1−p)/e2 and as we are unsure about the population proportion say let p=0.5 for maximum variability and Z=1.96 for a 95% confidence level, substituting e =0.05 for a 5% margin of error will give you the calculated sample size. n0=(1.96)^2*0.5*(1−0.5)/(0.05)2The calculated sample size, using the formula n0= (1.96)^2×0.5×(1−0.5)/(0.05)^2is approximately 384.16.

This means for this study on the efficacy of the GST Composition Scheme, a sample size of about 384 participants would be needed to achieve a 95% confidence level with a 5% margin of error, assuming maximum variability in responses (p = 0.5). Since we have taken the sample size say 450, which is greater than this calculated size, it suggests that the sample size is more than sufficient to achieve the desired statistical confidence and precision.

5.3 Data Collection

The study will be explored to check on GST provisions, composition scheme, administrative cost and impact of selecting the composition scheme over the regular one. Therefore, data collection will be based on Primary as well as secondary data sources.

Primary Data collection will be done by structured questionnaire and interviews of regular tax payers of FMCG sectors, chartered accountants and policy makers through Google sheet and physical forms

Various secondary sources, such as the websites mca.gov.in, gstcouncil.gov.in, gstindia.com, and gstcouncil.archives.com run by the Indian government, as well as circulars, journals, articles, newspapers, business magazines, annual reports, and literature reviews, will be scoured for relevant information. The readily available secondary data will be heavily utilised by researchers.

5.4 Area of Study

The present study is limited to the dealers of FMCG sector of Delhi NCR region, as Delhi NCR represents the entire business community of the whole of India for small dealers to big business brands. It is near about the capital of country as well as easy approachable which is the reason for choosing the region as Delhi NCR.

5.5 Statistical Technique

A descriptive questionnaire will be taken into consideration in both physical and Google form. Likert Scale technique (05 Point) along with Correlation analysis will be adopted and data will be analyzed through SPSS and various research tools like Anova, T-Test, Regression (Both IDV and DV on 5-point Likert scale)

6. Proposed/expected outcome of the research

Proposed/expected outcome of research is as below:-

a. To identify, with the help of data analysis, how much ease of business is promoted.

b. To have the clarity over the composition scheme as compare to regular scheme.

c. To promote the small sized business individuals to register themselves under the Composition scheme as less compliance requirement in compare to regular scheme of registration.

d. In research work, we will be able to determine how efficient the composition scheme is as a whole.

e. How many people have opted for the scheme as a part of GST?

f. Reasons behind those, who haven't opted for the same.

g. To judge the efficacy and limitation of Composition Scheme of GST.

h. Suggestions to government for more effective implementation of scheme and in the area where there are still loopholes.

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ABSTRACT

The research focuses on, "Efficacy of GST Composition Scheme - An Analytical Study of FMCG Sector in National Capital Region (NCR)". The composition scheme streamlines the tax compliance procedure for qualifying enterprises in an effort to lessen regulatory constraints and make it easier for firms to operate. The purpose of this study is to investigate how the GST Composition Scheme affected the specific group of taxpayers studied, specifically how it affected company expansion, tax compliance, and economic growth.

This research will examine the fundamental aspects and provisions of the GST Composition Scheme by an in-depth examination of relevant literature, official publications, and empirical data. It looks at things like who may participate, how much it costs, and what rewards are offered to companies who opt for this scheme. To further illuminate any possible difficulties experienced by taxpayers, the study also dives into the procedural characteristics and constraints of the composition system.

The research strategy integrates quantitative and qualitative methods. The experiences and perspectives of small taxpayers of FMCG Sector who have chosen the GST Composition

Scheme will be gathered through surveys, interviews, and case studies. To learn more about how the programme will affect tax collections, compliance rates, and sector-specific effects, we will look to secondary data sources including government publications and statistics reports.

The fast-moving consumer goods (FMCG) business is the fourth-largest sector of the Indian economy. The GST, which has an impact on practically every sector of the Indian economy, has taken the place of a variety of indirect taxes that the federal and state governments formerly levied. FMCG is one such sector that directly impacts the common populace. It is critical to do study on the GST's possible advantages and disadvantages for the FMCG sector. Thus, the analysis takes into account the FMCG industry's potential exposure to the consequences of the GST composition scheme. It also emphasises the benefits and drawbacks of GST adoption for the FMCG sector.

The results of this research add to our knowledge of how helpful the GST Composition Scheme has been for small dealers of FMCG's. The scheme's effect on tax compliance behavior, financial stability, and expansion potential for qualified taxpayers is the primary emphasis of this research. The research also looks into the possibility of any unforeseen outcomes and any ways in which the method may be improved.

Policymakers, tax authorities, and owners of small and medium businesses who want to know more about the pros and cons of the GST Composition Scheme will find this study's findings useful. Ultimately, the research hopes to help small and medium-sized taxpayers flourish under the GST regime by making evidence-based recommendations to further simplify and optimize the scheme's provisions.

Keywords: Goods and Services Tax (GST), Composition Scheme, Small taxpayers, Tax compliance, FMCG(Fast moving consumer goods), Business growth, Economic development.

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